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The EdgeWater MicroMonthly

-A monthly equities publication from EdgeWater Research Partners LLC-

“THE BIG PICTURE”

Selected Proxies: Closing Values

Selected Indices	June 30, 2008	July 31, 2008	% Monthly Change
Dow Jones Industrial Avg.	11350.01	11378.02	.21%
NASDAQ Comp.	2292.98	2325.55	1.42%
S & P 500	1280.00	1267.38	<.99>%
Russell 2000	689.66	714.52	3.6%
10-year Treasury yield	3.98%	3.98%	-

Selected Indices	Dec. 31, 2007	July 31, 2008	%YTD Change
Dow Jones Industrial Avg.	13264.82	11378.02	<14.22>%
NASDAQ Comp.	2652.48	2325.55	<12.32>%
S & P 500	1468.36	1267.38	<13.69>%
Russell 2000	766.03	714.52	<6.72>%
10-year Treasury yield	4.035%	3.98%	<1.36>%

I missed the newsletter last month. It's the first time since I started EdgeWater in late 2002 that I didn't publish a newsletter. Actually, the problem was more technical than anything...that is, my internet connection bugged out so I came to the conclusion that getting it out was going to take more effort than I was willing to expend. On the other hand, to be honest, sometimes the action in the markets gets to the point where there is not a lot left to talk about. Is anyone else tired of
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Good Things to Know

In this Month's “Big Picture” section, I suggested that recently there are probably a number of issues that have been pressed to trading levels that may suggest considerable discounts to their fair intrinsic valuations (if there is such a thing). My basic premise in that regard is that at least some of the year's compression in the equity markets, especially the micro caps, is related to a lack of liquidity, rather than simply to a deterioration of business prospects as a result of the slumping economy. To qualify that a bit, I recognize that the lack of liquidity is the result (in part) of the poor economic environment (or is it the other way around?), but, since a poor economy is not always accompanied by illiquid equity markets, I have drawn the distinction here and I will reiterate, much of the demise of stocks through 2008 has been driven by the impact of an illiquid financial system.

The above said, as I was writing the Big Picture section, I realized that perhaps it might make
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sense to actually provide some ideas that might fit my assumptions with respect to stocks being pressed as much by illiquidity than by rational fundamental analysis to levels that no longer make sense (and therefore represent opportunities for extraordinary, perhaps even short term, capital gains). As a result, and in lieu of my typical Featured Stock and First Look sections, here are a handful of ideas that I think are worth considering in terms of their current prices relative to (what I see as) their *apparently* ignored fundamental opportunities and/or progress. You may recognize some of this to be redundant, which just means I have harped on the irrationalness of that particular stock before. In other instances, the stories are completely new to my universe. In any case, I have tried to provide a brief argument that addresses what I see as a reasonable valuation, and some parameters that may help to evaluate/consider some attractive entry points for the stocks. The asterisk (*) denotes that the name is a coverage stock.

*** U.S. Silver Corp. - (Symbol: USA.V)** I own this one. Every time I talk about this stock it goes down. I am sure their executives wish I would stop, although that may have as much to do with me panning them in my last update as it does with my apparently bad karma. I wrote it originally at \$1.34, and have upgraded the allocation several times on the way down. It hit bottom (I hope) a couple of weeks ago at \$.28, but still trades around \$.30 - \$.32 depending on the day, which amounts to a fully diluted market cap of under \$80 million and that assumes the conversion of some derivatives that I believe are out of the money. I recognize the Company has had some operational struggles. Some of those have been expected while others were not so expected. In addition, they have had some other administrative issues that they have addressed recently with some new hires, and the price of metals, most importantly silver, have been under pressure over the past week or so, which probably doesn't help. **BUT**, the operations currently include two mines, one of which, the Galena Mine, is the second most prolific silver mine in the history of the U.S. It also includes three shafts, and two mills, while the Company also owns an additional mill and mine in the district as well. One of the primary shafts, the Galena shaft has been undergoing a major maintenance overhaul for the past 12 months or so, and the completion of that maintenance (expected by year end) is paramount to their ability to increase production from the facility, an issue that has hampered progress and likely the stock for the past several quarters. Again, they have clearly had issues, but here's the point. They reflected operating breakeven in 1Q 2008 (March 31, 2008), which implies measurable positive operating cash flow, and operations are improving on nearly all fronts with respect to the majority of the past challenges; production, hiring adequate labor, management issues etc. Those improvements are beginning to show up in the numbers. In addition, they continue to explore and identify *very promising* reserve opportunities, perhaps as good as the complex has ever seen. The stock however, continues to slide. I don't think that is how this typically works, that is, improving fundamentals coupled with continued weaker stock prices. From another perspective...the asset side if you will, the infrastructure of U.S. Silver's facilities...mills, shafts, ponds, the corresponding permits etc. could not be duplicated today for anything close to the current market cap of the stock. In fact that number is probably several times the current market cap. Moreover, as I said, reserves continue to grow, and there are arguments that the current market cap might understate even the reserve value of the Company. Again, there has not been a lot to cheer about here in terms of the stock price since I initiated coverage, but, I continue to believe that current prices provide the an opportunity for several multiples in the stock. In my view one of the bigger risks to investors in this stock might be another operator or perhaps some private equity enterprise coming along and buying it out.

***American Oil & Gas - (AMEX:AEZ)** In some respects AEZ reminds me a lot of the US Silver story....that is, things have not exactly gone as we/they originally planned/hoped, which has in turn impacted the stock rather negatively, especially over the past 12 months or so. 10 months ago, the stock traded to nearly \$8. On the other hand, in spite of the challenges, there is a significant resource based asset here that I think is being undervalued by the street *on the face*. That may be another way of saying I think the stock is worth more than this even if nothing particularly fantastic happens, but if something fantastic *does* happen, this dog will hunt. As I noted in a recent update on the Company, I am quite confident that if they packed it all in tomorrow, sold the properties, added it to the current cash and distributed the proceeds, the distribution to shareholders would likely be multiples of the current stock price. Maybe I am missing something here, but from my seat, the stock under \$3.00 per share looks quite undervalued. Further, the Company is positioned with several projects to provide ongoing near term information that I think could provide a catalyst(s) for the stock. On the other hand, (finally) falling oil prices, and poor performance across the board from the group (small E&Ps) in general, has in my view created a great opportunity in the stock.

***Arabian American Development Company (NASDAQ:ARSD)** ARSD just reported 2Q-F'08 on August 7, 2008. They did \$42 million in revenues and \$.13 fully diluted versus my estimates of \$33 million and \$.12 respectively. In addition, year-over-year, revenues grew by 57% and net income by 46%. Let me qualify those numbers a bit.

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Summary of EdgeWater Research Partners LLC Current Coverage

Company	Trading Symbol	(1 to 10) Allocation	Price Target @ 08/14/2008	Closing Price @ 07-31-08
Across America Real Estate	AARD	4	\$ 7.00	\$ 0.35
American Oil & Gas	AEZ	8	\$ 10.00	\$ 3.17
Arabian American Development	ARSD	4	\$ 7.25	\$ 4.75
AspenBio Pharma.	APPY	4	\$ 20.00	\$ 6.23
AuthentiDate Holdings	ADAT	8	\$ 5.00	\$ 0.66
Broadcast International Inc.	BCST	4	\$ 8.00	\$ 3.00
China Bio Energy Holdings	CBEH	5	\$ 12.00	\$ 6.50
Disaboom Inc.	DSBO	4	\$ 2.75	\$ 0.55
Double Eagle Petroleum	DBLE	7	\$ 33.00	\$ 15.26
Far East Energy	FEEC	8	\$ 3.00	\$ 0.50
GeoPharma Inc.	GORX	6	\$ 7.25	\$ 2.50
Ikonics	IKNX	4	\$ 19.00	\$ 6.71
Irvine Sensors	IRSN	6	\$ 5.50	\$ 0.18
Power Secure	POWR	6	\$ 20.00	\$ 7.41
National Tech. Systems. Inc.	NTSC	4	\$ 9.00	\$ 5.00
Peerless Systems	PRLS	4	\$ 5.50	\$ 1.82
PHC Inc.	PHC	4	\$ 4.50	\$ 2.45
Pressure BioScience	PBIO	6	\$ 8.50	\$ 3.30
Pure Cycle	PCYO	6	\$ 20.00	\$ 6.29
TurboChef Technologies	OVEN	6	\$ 23.00	\$ 5.25
US Silver	USAV	8	\$ 2.35	\$ 0.40
XELR8 Holdings	BZI	4	\$ 3.60	\$ 0.93

(Intra-month: **Upgrades in Blue, Downgrades in Red, Additions in Orange**)

EdgeWater Terminated Coverage Performance

Stock	Symbol	Recommendation	Shares	Cost	Total	Terminat. -or- Downgrade PX	Terminat.-or- Downgrade Val.	P/L	P/L %
Terminations and Downgrades									
* Factual Data	FDCC	10/16/02	157.729	\$ 6.34	\$ 1,000	\$ 19.00	\$ 2,997	\$ 1,997	200%
* Matrix Initiatives	MTXX	10/28/02	145.985	\$ 6.85	\$ 1,000	\$ 14.62	\$ 2,134	\$ 1,134	113%
* Media Arts Group	MDA	11/04/02	281.690	\$ 3.55	\$ 1,000	\$ 3.87	\$ 1,090	\$ 90	9%
* Media Arts Group	MDA	11/14/02	192.308	\$ 2.60	\$ 500	\$ 3.87	\$ 744	\$ 244	49%
* DrugMax	DMAX	05/06/03	833.333	\$ 1.20	\$ 1,000	\$ 5.09	\$ 4,242	\$ 3,242	324%
** Birner Dental	BDMS	12/03/03	46.512	\$ 10.75	\$ 500	\$ 18.00	\$ 837	\$ 337	67%
** PAR Technologies	PTC	08/17/04	59.524	\$ 8.40	\$ 500	\$ 19.11	\$ 1,138	\$ 638	128%
* PAR Technologies	PTC	3/1/2004	101.833	\$ 9.82	\$ 1,000	\$ 27.10	\$ 2,760	\$ 1,760	176%
* Webb Interactive	WEBB	7/1/2003	609.756	\$ 0.82	\$ 500	\$ 0.09	\$ 55	\$ (445)	-89%
* Birner Dental	BDMS	10/28/2002	95.238	\$ 10.50	\$ 1,000	\$ 28.47	\$ 2,711	\$ 1,711	171%
** Natural Gas Services	NGS	6/2/2005	48.309	\$ 10.35	\$ 500	\$ 23.23	\$ 1,122	\$ 622	124%
* Allied Healthcare Inc.	AHCI	7/27/2004	203.666	\$ 4.91	\$ 1,000	\$ 6.66	\$ 1,356	\$ 356	36%
**Metrotek Technologies, Inc.	MTEK	5/3/2004	161.290	\$ 3.10	\$ 500	\$ 10.95	\$ 1,766	\$ 1,266	253%
* PowerCold Corp.	PWCL	11/26/2004	322.581	\$ 1.55	\$ 500	\$ 0.72	\$ 232	\$ (268)	-54%
* Impco Technologies	IMCO	10/29/2003	120.627	\$ 8.29	\$ 1,000	\$ 9.36	\$ 1,129	\$ 129	13%
* Impco Technologies	IMCO	4/29/2004	103.950	\$ 4.81	\$ 500	\$ 9.36	\$ 973	\$ 473	95%
* Metalline Mining Company	MMGG	3/27/2003	431.034	\$ 1.16	\$ 500	\$ 4.84	\$ 2,086	\$ 1,586	317%
* Metalline Mining Company	MMGG	5/9/2004	217.391	\$ 2.30	\$ 500	\$ 4.84	\$ 1,052	\$ 552	110%
* Electric City	ELC	7/1/2003	413.223	\$ 1.21	\$ 500	\$ 0.13	\$ 54	\$ (446)	-89%
**InterOil Corp.	IOC	6/15/2006	34.483	\$ 14.50	\$ 500	\$ 27.68	\$ 954	\$ 454	91%
** Double Eagle Petroleum	DBLE	6/15/2006	34.270	\$ 14.59	\$ 500	\$ 28.29	\$ 969	\$ 469	94%
* Image Entertainment	DISK	12/16/2002	418.410	\$ 2.39	\$ 1,000	\$ 4.19	\$ 1,753	\$ 753	75%
* InterOil Corp.	IOC	9/21/2004	46.729	\$ 21.40	\$ 1,000	\$ 37.85	\$ 1,769	\$ 769	77%
* GSE Systems, Inc.	GVP	11/5/2007	300.300	\$ 3.33	\$ 1,000	\$ 9.77	\$ 2,934	\$ 1,934	193%
** TurboChef Technologies	OVEN	11/15/2007	23.213	\$ 10.77	\$ 250	\$ 16.03	\$ 372	\$ 122	49%
** AspenBio Pharma.	APNB	11/27/2007	156.740	\$ 3.19	\$ 500	\$ 11.43	\$ 1,792	\$ 1,292	258%
** Natural Gas Services Group	NGS	11/29/2007	38.700	\$ 12.92	\$ 500	\$ 18.17	\$ 703	\$ 203	41%
** PHC Inc.	PHC	11/30/2007	256.410	\$ 1.95	\$ 500	\$ 2.85	\$ 731	\$ 231	46%
** Peerless Systems	PRLS	12/7/2007	170.648	\$ 2.93	\$ 500	\$ 2.10	\$ 358	\$ (142)	-28%
* Clarion Technologies Inc.	CLAR	12/19/2007	1470.588	\$ 0.34	\$ 500	\$ 0.01	\$ 7	\$ (493)	-99%
* Manatron Inc.	MANA	7/16/2003	125.000	\$ 8.00	\$ 1,000	\$ 11.62	\$ 1,453	\$ 453	45%
* Natural Gas Services Group	NGS	6/2/2005	48.309	\$ 10.35	\$ 500	\$ 23.22	\$ 1,122	\$ 622	124%
* Natural Gas Services Group	NGS	6/2/2006	32.258	\$ 15.50	\$ 500	\$ 23.22	\$ 749	\$ 249	50%
* Discontinued Coverage-"Current value" based on closes on the date of discontinuation.									
						** Rating Downgrade			

EdgeWater "First Look" List

<u>First Look List vs. Index Values at 07-31-08</u>									
						07/31/08	07/31/08		
<u>Stock</u>	<u>Symbol</u>	<u>First Look date</u>	<u>Shares</u>	<u>Avg. Cost</u>	<u>Total</u>	<u>Price</u>	<u>Value</u>	<u>P/L</u>	<u>P/L %</u>
* Cumulative Expired Stocks	N/A	N/A	N/A	N/A	\$ 43,000	N/A	N/A	\$ 7,488	17.41%
Innovative Designs	IVDN	8/15/2006	2041	\$ 0.49	\$ 1,000	\$ 0.41	\$ 837	\$ (163)	-16.33%
HandHeld Entertainment, Inc.	ZVUE	9/9/2006	361	\$ 2.77	\$ 1,000	\$ 0.18	\$ 65	\$ (935)	-93.50%
Waytronx, Inc.	WYNX	10/10/2006	2778	\$ 0.36	\$ 1,000	\$ 0.18	\$ 500	\$ (500)	-50.00%
Broadcast International	BCST	11/9/2006	645	\$ 1.55	\$ 1,000	\$ 3.10	\$ 2,000	\$ 1,000	100.00%
Gold Resource Corp.	GORO	12/11/2006	610	\$ 1.64	\$ 1,000	\$ 4.60	\$ 2,805	\$ 1,805	180.49%
Arabian American Holdings	ARSD	1/9/2007	338	\$ 2.96	\$ 1,000	\$ 4.75	\$ 1,605	\$ 605	60.47%
Dale Jarrett Racing	DJRT	2/2/2007	2632	\$ 0.38	\$ 1,000	\$ 0.12	\$ 303	\$ (697)	-69.74%
Timberline Resources	TLR	3/9/2007	345	\$ 2.90	\$ 1,000	\$ 2.21	\$ 762	\$ (238)	-23.79%
Aerogrow International	AERO	4/5/2007	172	\$ 5.82	\$ 1,000	\$ 1.53	\$ 263	\$ (737)	-73.71%
Xfone	XFN	05/08/07	282	\$ 3.55	\$ 1,000	\$ 2.80	\$ 789	\$ (211)	-21.13%
Cornerworld, Inc.	CWRL	06/07/07	806	\$ 1.24	\$ 1,000	\$ 0.40	\$ 323	\$ (677)	-67.74%
Disaboom Inc.	DSBO	07/10/07	690	\$ 1.45	\$ 1,000	\$ 0.55	\$ 379	\$ (621)	-62.07%
Next Phase Wireless	NPHS	08/13/07	200	\$ 5.00	\$ 1,000	\$ 0.10	\$ 20	\$ (980)	-98.00%
Novelos Therapeutics Inc.	NVLT	09/12/07	1587	\$ 0.63	\$ 1,000	\$ 0.54	\$ 857	\$ (143)	-14.29%
Win-Eldridge Mines Ltd.	WEX.V	11/12/07	581	\$ 1.72	\$ 1,000	\$ 0.95	\$ 552	\$ (448)	-44.77%
Air Industries, Inc.	AIRI	12/10/07	4167	\$ 0.24	\$ 1,000	\$ 0.14	\$ 583	\$ (417)	-41.67%
White Mountain Titanium	WMTM	01/11/08	971	\$ 1.03	\$ 1,000	\$ 1.00	\$ 971	\$ (29)	-2.91%
Rancher Energy	RNCH	02/12/08	1667	\$ 0.60	\$ 1,000	\$ 0.20	\$ 333	\$ (667)	-66.67%
Quantum Fuel Systems Technologies Worldwide Inc.	QTWW	03/12/08	1176	\$ 0.85	\$ 1,000	\$ 1.78	\$ 2,094	\$ 1,094	109.41%
HC Innovations Inc.	HCNV	05/13/08	800	\$ 1.25	\$ 1,000	\$ 0.90	\$ 720	\$ (280)	-28.00%
PAR Technologies, Inc.	PTC	06/23/08	132	\$ 7.60	\$ 1,000	\$ 8.17	\$ 1,075	\$ 75	7.50%
First Look			n/a		\$ 24,000	n/a	\$ 22,159	\$ 4,324	18.02%
DJIA			2,5085		\$ 24,000	11,378.02	\$ 28,542	\$ 4,542	18.92%
S&P			23,1770		\$ 24,000	1,267.38	\$ 29,374	\$ 5,374	22.39%
NASDAQ			13,5538		\$ 24,000	2,325.55	\$ 31,520	\$ 7,520	31.33%
RUSSELL			47,9978		\$ 24,000	714.52	\$ 34,295	\$ 10,295	42.90%

One of the Company's biggest production inputs is natural gasoline, which trades in lockstep with oil. On an ongoing basis, the Company is typically able to pass cost increases onto customers, which typically means that revenue increases can simply be related to input increases which in effect do not lead to higher earnings. Thus, part of the revenue growth may be irrelevant, but the earnings growth is quite topical, but in this case, it's a bit tricky too, because they use some hedging strategies that ultimately impact margins and net income in a rather "lumpy" way. But here is the thing to focus on. The Company is able to grow the core business largely by increasing the utilization of existing plant. They just expanded the plant capacity, which will make a small contribution to 3Q and an ongoing/growing contribution to subsequent quarters. Therefore the stage is set for them to reflect true growth in the core business. With that in my mind, I think they begin to reflect marked earnings growth in the coming quarters, and with the stock trading at what is just a bit over 10X projected fiscal 2008 EPS (half of which is in the bank) it seems to me that the core business could speak to better valuations through F2009. However, *this is only part of the story*. Recall, the Company also owns 1/2 of a mining project in Saudi Arabia, for which they have provided some recent cash flow projections. Granted, the complex will take a couple of years and about \$140 million to get running, but **their NPV valuation of the project** at recent metals prices (which by the way is in reasonable proximity to my own original analysis) suggests that the NPV10 value is about \$275 million and the NPV15 is about \$176 million. If we extract the Company's portion out of each (50%), it implies an intrinsic value of between about \$90 million and \$140 million, or, something between about \$4 and \$6 per share. So then, from my perspective, ARSD's prospects are that the core business will grow in subsequent quarters making an argument for better stock valuations on the face, so the mining side is essentially being valued at ZERO. This stock, again in my simple view, under \$4.50 is a great value. Since we are all scratching our heads as to where commodity prices are going, led me add this angle. The Company does not seem to have much exposure to rising oil/gas prices because they seem to be able to pass those costs on pretty readily. On the other hand, the valuation of the mining side will (probably **has** as of late) be predicated on metals prices. However, if we are not paying anything for that side of the business anyway, how much can we get hurt by falling metals prices? If nothing else, it looks like a very cheap hedge against rising commodity prices.

Gold Resource Corporation (OTC BB: GORO) I own this one. GORO spent much of the latter half of the month of May (2008) trading above \$6. I suspect much of the recent retracement in the stock (back to \$3.35) is related to the corresponding retracement in gold. To put it into perspective, GORO traded below \$3.30 briefly in late February, but other than that, it's been well over a year since the stock has traded as low as the past few days. Again, I suspect that has to do with the price of gold, which frankly I find interesting. Don't misunderstand, clearly if the goal here is to be a gold *producer* (which it is), then the price of gold will forever impact the Company's fortunes. However, the story here is that the Company believes it will be a significantly low cost producer (in the \$100 per ounce range), and the inference is that if they hit the production and grades through F2009 they are suggesting, the valuation of the stock will almost certainly be significantly higher regardless of where gold is (within reason). Thus, I would think that those evaluating the stock either believe the production/grade part of the story, or they don't, and for those who believe it, I would in turn think that a retracement in the shares predicated solely on lower gold prices should at least on some levels be viewed as a marked opportunity to accumulate the stock. On the other hand, for those who think that the Company either will not get to production as planned and/or will not achieve the type of consistent head grades the Company believes, gold prices may be equally irrelevant within a reasonable range (what difference does the price of gold make if you can't produce it or if you have far less of it than you thought you did?). The Company will host a conference call August 15, 2008, to review its current progress which I suspect will provide some visibility to the production/grade questions I alluded to above. In my view, positive information in those regards, could provide a catalyst to again turn the stock off of these \$3.50 - \$4.00 lows.

Technical Communications Corporation (OTC BB:TCCO). This is a "new" story I have been looking into after one of my subscribers brought it to my attention. From their website "*For over 45 years, TCC has specialized in securing communications networks around the globe. TCC has extensive experience and many long term international relationships due to our strong reputation. With TCC's broad range of security system solutions, for office, HF/VHF/UHF radio and high speed data link applications, TCC's products have been installed in over 110 countries and on six continents. The combination of a large base of international representatives, direct sales force, and technical field staff gives each customer personalized service and support.*" So here's the intriguing part. The market cap of the stock is under \$8.5 million and they have \$4 million cash with no debt, which translates into an enterprise value of just over \$4 million. For the nine months ended June 30, 2008, the Company reported revenues of \$5.6 million and net income of \$1.15 million or \$.69 per diluted share versus 2007 numbers of \$3.2 million, \$304,000, and \$.20 per share respectively. That pencils out to revenue growth of 75% and net income growth of 280%. If 4Q 2008 were to annualize at the rate of the first three quarters, they should end the year with revenues in the \$7-\$7.5 million range, net income of \$1.5 million and fully diluted EPS of around \$.85 to \$.90. The stock is \$5.70 (down from the high \$6 to \$7 range in late May), which puts it at about 6.5 times earnings. However, if you consider the P/E as a function of the enterprise value, it's just over three times. Let me put that into perspective; at the current rate, which

I think the Company believes it can grow going forward, the Company would double the current enterprise value in under three years. Granted, this is a small company with a limited float, but, an enterprise to earnings value of 3X? What's wrong with that math?

CoActive Marketing Group Inc. (NASDAQ: CMKG). *“The Company is a full-service marketing, sales promotion, and interactive services company that develops and manages integrated marketing, sales and promotional programs at both national and local levels for consumer product companies. Our Programs are geared towards growing incremental sales and profits for our clients by identifying and addressing key trade, sales and consumer trends”.*

This is another that was brought to my attention by a subscriber. The market cap is about \$21 million, and they have approximately \$5.3 million in cash with no debt, so the enterprise value is around \$16 million. For fiscal 2008 (ended March 31, 2008) the Company reported revenues of \$85 million and EPS of \$.21, compared to revenues of \$95 million and EPS of \$.14 in fiscal 2007. I won't get into the minutia of that, but my suspicion is that they learned to do more with less (higher profits on lower revenues). For 1Q 2009 (ended June 30, 2008) they reported revenues of \$22.3 million vs. 20.4, and EPS of \$.07 versus <\$.04> for fiscal 2008. If they can annualize Q1 for the balance of 2009, (last year Q1 was by far the worst quarter from an earnings standpoint) CMKG would end the year at something around \$.28 per share in earnings which would represent about 33% earnings growth. The stock has been trading at just under a 10X multiple (P/E) and at about 8X the enterprise value. Hmm, let's see, 30%+ earnings growth, with a P/E in the single digits? In addition, they typically recognize another \$.10+ per share in non-cash D&A, so for those of us who like to focus on cash flow, the story looks another 30% or so better than the GAAP earnings. Granted, the stock has not been pummeled over the past few months like some of the others on this list, but, there are (at least) two ways for a stock to get cheaper. There is the obvious way, the price goes down, and there is the less obvious way, the stock stands still while the fundamentals improve. In the end, it doesn't make much difference how it gets there. It looks compelling to me.

LifeVantage Corporation (OTC BB: LFN). I own it. I have followed the Company for two or three years now. They have developed a natural supplement called Protandim, which they describe as follows *“Protandim is a groundbreaking, clinically proven solution for healthy aging. This patented anti-oxidant therapy is 1000's of times more powerful than red wine, oranges, blueberries, acai juice or other popular anti-oxidant supplements. Protandim works by increasing the body's natural anti-oxidant protection at the cellular level, triggering cells to produce naturally occurring protective antioxidant enzymes such as super oxide dismutase (SOD), catalase, and glutathione. A peer-reviewed scientific study shows that after 30 days of taking Protandim, free radicals decreased an average of 40 percent, slowing the progressive aging factors to the level of a 20 year old. Protandim is currently the subject of over 20 scientific studies at leading universities and research institutes”.* By the way, for what it's worth, this is the only supplement I take, and I have taken it for the better part of the past two years or so.

As the description suggests, this is a pretty sexy story.....the kind that can create a lot of hype. In fact, in June 2005, it was featured on [ABC Primetime](#). As one might imagine, the stock went *primetime* as a result, *trading over \$16*. It was downhill from there. I have an opinion about what happened to the Company next, which I won't expand upon, because it would require one of my cynical diatribes about inept management, which is just digression at this point. However, the first of this year, the Company hired a new CEO, Mr. David Brown. Here is his abbreviated bio: *“David Brown was most recently the Managing Director and Co-Founder of Nutrition Business Advisors, a firm founded in 2003 to provide strategic consulting services, capital raising and full-service business development focused on the \$130 billion Global Nutrition Industry. Prior to co-founding Nutrition Business Advisors, Mr. Brown was President and Chief Executive Officer of Metabolife International. From 1994 to 2000, Mr. Brown served as the President of Natural Balance, Inc., a Colorado-based dietary supplement company. Mr. Brown began his career as a corporate attorney, serving at the law firm of Ballard, Spahr, Andrews & Ingersoll in 1994 and Kindel & Anderson from 1991 - 1994. Mr. Brown holds a Juris Doctor from Cornell University and a Bachelors of Arts from Brigham Young University”.*

I met with David just after he came on board, and have been following things since. They have in a few months, restructured a number of things, (distribution- both domestic and international, etc.) embarked on adding some new product lines, skin care for example, which I think has enormous potential, and have begun to lay the ground work for entrees into other “verticals”, veterinary might be an example.

For the March 2008 quarter, they reported revenues of just under \$800,000. I suspect breakeven is somewhere in the neighborhood of twice that number, perhaps a bit more since they will probably spent more marketing dollars over the next few quarters. That by the way (revenues of \$2 million per quarter) is a place they have been before. So here's the point. In short, David Brown is a pretty dynamic guy, who obviously knows the space. I think he has a plan, and he knows how to execute in this theatre. In addition, like most supplements, the margins are hefty, so there is considerable leverage in the earnings potential of revenues beyond breakeven. Just for the sake of argument, let's

assume that breakeven is in fact about \$1.8 million per quarter. If they did \$2.5 million, my guess is that would translate into something like \$500,000 in pre-tax profit (probably a bit more, but we're just winging this anyway). That number would annualize to about \$2 million or about \$.08-\$.09 per share. The stock is trading at \$.16 (a market cap of \$4.2 million) and can't get out of its own way. If this Company could earn \$.08 on \$10 million in revenues in ...let's say... 2009, wouldn't the stock have to trade (at least) around \$1.00? That's a 6-7X from here. Granted, there is a lot of work that needs to be done, but they have brought in what I view as a group of credible/topical people to right the ship and I love the product because I (honestly) think it keeps me healthier. In my view, this is at least a reasonable shot at the brass ring.

Waytronx, Inc. (OTC BB: WYNX). I own this one too. WYNX has presented at a couple of my past conferences. I have always been intrigued by the technology because I have had some exposure to the problem they are trying to solve which is essentially the dissipation of heat from electronic devices (computers, cell phones etc). In short, as these devices get smaller and faster, its gets more difficult to keep them cool. Heat causes them to fail, so, again, my sense has always been that the Company might be onto something. However, on May 16, 2008, the Company merged with a private Oregon based company called CUI, Inc. CUI describes its business as follows:

CUI was formed in April 1989 by James McKenzie to design, manufacture, and distribute electronic components to OEMs and the design engineer. The company concentrates on two major market segments:

- * *Components - power supplies, transformers, speakers, buzzers, converters and connectors*
- * *Industrial control and power devices (encoders and industrial power devices)*

This is, in my view a bit of a game changer. Prior to the acquisition, WYNX was a development stage Company. Translation; they were creating no significant revenues and burning cash as they tried to commercialize the technology, which reduced the analysis to; nice idea, but, will the runway be long enough for them to actually get this plane off the ground, or does it run out of capital/options and "blow up"? By the way, that endeavor - commercializing the technology, remains ongoing. With the acquisition in place, for the June 30, 2008 quarter, the company reflected revenues of \$4.4 million and within a few thousand dollars of operating breakeven. Clearly, the metrics, and the story, have changed. Granted the capitalization requires some analysis, as does the potential of CUI going forward, but, again, it looks as though we are beyond the cash burn/development thing and into real numbers. That said; my take is this. My sense is that the new company could be able to achieve revenues in \$25 million to \$30 million over the next 12 months, and they suggest they can grow the business at an annual rate of 30%. That makes them comfortably profitable. Moreover, I think the commercialization of the (original) cooling technology will ultimately generate some contribution here, which could provide an additional leg up in terms of the valuation. Frankly, I think CUI's posture in particular markets may ultimately enhance that process. I believe the fully diluted market cap is about \$55 million, although the stock has had a nice little bump the past few days following the earnings release. (Prior to that it traded at about \$.18 which put the market cap at more like \$39 million). CUI margins are about 40%, and the recent earnings release suggested that the \$17,000 operating loss included some one-time acquisition costs etc, so I am thinking that normalized operating breakeven might be around \$4 million per quarter. If my math is close, each \$1 million beyond that \$4 million/qtr. could translate into \$300,000-\$400,000 of additional bottom line. Thus, a six million per quarter year (I believe CUI did \$6.3 million in the March quarter- obviously the business is a bit lumpy) could generate net income of \$2.5 million to \$3 million, or about 1.5¢ per share. Just for grins, if you applied the growth rate they are suggesting (30%) to the 1.5¢ per share, it comes out to about \$.45 per share. That would assume no contribution from the technology that originally attracted me to the deal. Nice transaction folks. Stay tuned.

* **Peerless Systems Corporation (NASDAQ:PRLS).** Yea I know, everyone is more than tired of listening to me beat this drum, so I will be brief, but thorough enough that those who have not heard this before can get a sense of what the rest of you are tired of hearing about. The Company operated in and developed products in the imaging space - copiers printers etc. which they sold/licensed to OEMs. For a variety of reasons, they recently sold their core technology to Kyocera Mita, so while they still have some remnants of an ongoing business left, they are in the process of seeking acquisitions within their core competencies that will augment those remaining remnants. Here's the hook. They have (as of the end of Q1 - 2009, ended April 30, 2008) nearly \$56 million in cash, no-debt, and a market cap of about \$34 million, which actually seems to drift a little lower with each passing week or so. That's right, *it's trading at 60% of its cash.* Here's the rub. A group of dissenting shareholders (this has been ongoing) wants the board to distribute to each shareholder their share of the cash and go away. Management wants to take the

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this yet?

Personally, I hate to say it, because I am always the first to play “devil’s advocate” when someone else says it, but this seems like one of longer and more painful periods for micro caps that I can remember, and I started in this business in 1984. I recognize that is not quite as long as a number of my readers, but its long enough to at least provide some breadth to the statement. To be frank, my coverage stocks have been a disaster. The only saving grace is that I have not put out a lot of new names through the year, even though there were several I gave a hard look at....most of those I was looking at have traded lower still. That is my silver lining...if one can call it that...I avoided making a bad situation worse.

On the other hand, last week showed some promise:

Selected Indices	August 5, 2008 (Tuesday)	August 8, 2008 (Friday)	% Weekly Change
Dow Jones Industrial Avg.	11286.02	11734.42	3.9%
NASDAQ Comp.	2308.14	2414.10	4.6%
S & P 500	1254.87	1296.32	3.3%
Russell 2000	707.32	734.30	3.8%

I actually used August 5 as the start point because on Monday, August 4, the markets were actually down a bit, which means that last week’s rally was really only four days, making it even a bit more impressive.

In my view, there are a couple of things about last week’s activity that are worth noting. First, in my February 13, 2008 newsletter, I suggested the following:

“.... some have been suggesting that we may already be in the midst of the recession, while others are of the view that it is just around the corner. Either way, if history holds, and this recession has already started or is just starting, then one might expect things to start improving towards the end of the year (“... if you take a look back over most of the recessions we have had in this country, one of the take-aways is that they generally last less than a year. I don’t know the exact average, but I suspect it is somewhere in the realm of 8 to 10 months....”). Moreover, again, if history repeats itself, then we would expect to see the market put in bottoms approximately half way through that “event”, which might suggest that things could begin to improve by late spring or early summer....”

Through this point in the year, most of the major indices look like they put in bottoms (or at least lows) around mid-July, although both the Russell and the NASDAQ each actually cracked even lower in mid March as well. That mid July purge corresponds pretty well with my assessment about things improving by “late spring or early summer”. By the way technically, “summer” begins around June 21 and ends around September 21, give or take a day or two on either side, so, I think it is fair to say that July 15 is *early summer*.... Actually, my point is not to demonstrate my market timing abilities...I would have starved long ago if that were my forte, rather, I am only suggesting that if we are in a recession, and if it started around the beginning of the year, and if it all plays out in a historically “normal” pattern, then the lows of July 15 may in fact prove to be.....the lows.

Second, last week and/or the weeks since the mid-July bottoms, provide (in my opinion) a valuable lesson about equity markets being pressed by illiquidity. I know I keep saying this, but, one of the hardest things about the current environment is determining how prices/valuations are being impacted by true deteriorating economic fundamentals, as opposed to the lack of liquidity in the markets. I realize those notions are not mutually exclusive, but I think it is fair to say that there are a number of micro cap stocks, probably most of them at one point or another in the past few months, that have traded to levels that don’t look like they reflect fair values regardless of how bad one assumes the environment to be. Stocks trading to those sorts of irrational levels are what finding true extraordinary opportunities in equities is all about. Unfortunately, as last week illustrated, the markets don’t ring a bell to let everyone know when they are about to turn, and when they do turn, they often do so with considerable short term vigor. That notion embodies another thing I have said a lot lately (actually longer than lately since I am not a good market timer) which is, *when* the micro cap market finally turns, there will be more money made in the three or four months following the bottom than in the next three of four years....even if the next three or four years are good....

Specifically, we have seen some of that play out in my own little mud puddle/coverage universe over the past month

or so. For example, for all of the reasons I have beaten to death in everything I have ever written about ADAT, its trade under \$.30 (\$.27 to be exact) on July 7, represented one of those irrational trading moments. (In fairness, I also thought the same thing at points much higher in the stock...). ADAT closed last week at \$.77 (which in my view will still prove to be cheap). Granted, they did announce some promising news, but nothing game changing (at least not on the face). Doing the math, that move approaches *3X in about 30 days*. I own the stock by the way. As another example, my First Look from June; PAR Technologies (NYSE:PTC), finished July 15th (coincidence?) at \$6.10. However, two weeks later, on June 29, the stock finished at \$8.55; a move of 40%. Apparently, their numbers were a bit better than expected, which frankly is another issue we should be considering; have expectations been pressed so low that upside surprises are becoming more and more likely? My point is, it always makes sense to keep paying attention and trying to do the math, because sooner or later the underlying valuations matter. Moreover, catching stocks well below those thresholds can prove quite fortuitous, but if we have in fact put in the bottoms the opportunities to catch those lows may be shrinking a bit. Again, I don't pretend to know the timing of anything, (although I still think, depending on how far out the weak economy stretches, we may have seen the lows for the year barring potential geopolitical jolts), but one thing I do think we can count on; *when the micro cap market finally turns, "there will be more money made in the three or four months following the bottom than in the next three or four years....even if the next three or four years are good"*.

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Cash (or at least some of it) and acquire its way back into the imaging space. Which side of that argument one sits on depends in part on what one believes about the space (imaging) and/or Management's ability to deploy an acquisitive strategy therein. I don't pretend to know the answer, and frankly at this point there is very little in terms of an operating business to analyze, which begs the question, "why am I still covering the stock?". The answer to that question lies in the same logic I used to include the stock in this piece.... they have nearly \$56 million in cash, no-debt, and a market cap of about \$34 million, which means *it's trading at 60% of its cash*.

* **PHC Inc. (AMEX-PHC)**. I have followed this Company for nearly five years. It's been an interesting period with the usual twists and turns. Not all that I had anticipated has happened, but, for the most part, the disappointments have been more of a timing nature than with the Company failing to execute on the strategy. In that regard, the past twelve months have been encouraging in that they have positioned themselves for growth by adding beds in rather significant chunks; 58 beds added in Las Vegas, which I believe they brought online a few months ago and 56 additional beds in the Detroit Behavioral Institute slated for September 2008. In addition, they are in the process of building out an outpatient facility (also in Las Vegas) as well as an eventual 100 bed in-patient facility on the same site. Putting all of that into perspective, I believe the bed count prior to the additions in Las Vegas was approximately 190. Thus, the additions in Las Vegas (stage one) and Detroit through the current calendar year, should increase that number by about 60%. Moreover, the coming additional 100 beds in Las Vegas (stage three) would add another 30% to that extended total. The point is, the foundation for growth is in play, and I think that the additional capacity should provide some leverage to the earnings. So, whereas, the just completed fiscal year, 2008 (ended June 30, 2008) looks like EPS should be around 10¢, 2009 (the current fiscal year) should I would think, end up in the 16¢ to 20¢ range, followed by fiscal 2010, that looks like it could be 20¢ to 25¢. In addition, they will likely generate an additional 5¢ to 10¢ in non-cash expenses on an ongoing basis, which again speaks to better valuations in terms of their ability to generate cash (as opposed to earnings). In my opinion, the stage is set for them to (visibly) reach performance thresholds that should speak to valuations of 2X to 3X current levels. I continue to believe that the Company will eventually get to a size that will make them an acquisition target, and I would expect those valuations to be in line with what I have suggested here. In my view, the progress they have achieved in terms of adding beds, as well as establishing the (tangible) groundwork for even additional capacity has significantly enhanced the story. The stock however, has drifted sideways to down through much of the year. Now, perhaps more than ever, the equation will turn to their ability to execute, and fill that capacity. That, in my mind, is a challenge that is mitigated by what I see as a growing need /acceptance for/of mental health services in general.

So then, there are a few ideas to keep on the radar. This is by no means a complete list of those that I think are trading at levels that may ultimately prove to be quite opportunistic. I will try to provide some additional names in future writings.

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